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Father and Son ARRANGEMENTS on the Farm

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Remember!

A GOOD father-son business arrangement can be the basis for an excellent farm business. The son contributes a strong back and the enthusiasm of youth. The father contributes capital and the experience of age.

With modern farming the ownership of real estate does not, in itself, provide security. ***Security in modern farming is dependent upon the successful and continuous operation of the business.***

By

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8. Give consideration to tax problems.
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Father and Son Arrangements on the Farm

A MODERN farm is both a home and a business. Family arrangements must be made with this in mind. Father and son arrangements on farms combine the home problems of a family with the business problems of a partnership.

Proper father and son arrangements can help to bring about an orderly transfer of farms from one generation to the next. When this transfer is made in an orderly way, the older generation, the younger generation, the farm, and the community all gain. If the transfer is not made in an orderly way, all lose.

A good father and son arrangement does not necessarily result in the son taking over the home farm. Some excellent arrangements have ended with the son in the farm machinery business, or in a law office, or farming on another farm. The objective of a good arrangement should be the best solution for (1) all members of the family, (2) for the farm, and (3) for the community.

Advantages of Arrangements

A FATHER and son farm business arrangement may be designed to start a son or son-in-law who has limited capital on the home farm. The young man contributes his labor and shares in the management. The father contributes his labor and all or most of the capital at the beginning. The son is encouraged to invest a portion of his earnings in the business.

What are the advantages of such an arrangement? A father is generally interested in having a son work into the business because:

1. By working with the son he can frequently build up a larger and more efficient business and realize more income.

2. It gives him the opportunity to continue to work on the farm until he is ready to retire, gradually shifting the hard work and responsibility to the son.

3. It provides a way to keep the farm in the family; it prevents the farm, which has been gradually stocked and equipped to capacity during father's lifetime, from running down. Sons are interested in working into the home farm business because:

1. It requires less capital at the start than any other method of getting started in farming.

2. It allows the son to use his management ability as it develops and to profit by the mature advice of his father.

3. It may provide the son with an

opportunity to start farming on a farm of adequate size in good operating condition.

4. It sets the stage for the eventual transfer of ownership of the farm to the son who has stayed at home with his father.

A New Problem

FATHER and son problems have changed since the days of "subsistence farming" — the days when food, clothing, and shelter for the family were the main things produced on the farm. Every member of the family was reasonably sure of his share of those things, and he couldn't use much more than his share. If he did use more than his share, he was likely to get sick.

We are now living in the age of commercial farming — much of it developed in the past fifty years. By commercial farming is meant the kind of farm operation where most of the production is for sale and the family buys most of the things they consume or use.

In commercial farming, the payoff is in dollars and the division of the income between the various members of the family is a real problem. It is quite possible for one member of the family to obtain and spend far more than his fair share of the farm profits. Some older farmers do not realize how different the father and son problem is from that in grandfather's day of "subsistence farming." The old system no longer works, and definite business agreements are the best answer.

Some Questions

FOLLOWING are five problems which may come up in a father and son operating arrangement:

1. Is there enough income?
2. What living arrangements will be made when the son is married?
3. If there is more than one son, which son should stay home?
4. How can the father help the son to get established on another farm?
5. How shall the son be paid?

The first three of these problems should be answered before attention is given to the next two problems. If there isn't enough income or if living conditions are unsatisfactory, it is useless to consider how the son shall be paid.

Amount of Income

Father and son arrangements cannot be expected to be successful on farms that do not furnish enough income to support a family. Some father and son partnerships have run into trouble because they were set up on a farm which had a net income of only $2000, and a father and son who each wanted $2000 for himself. They were trying to find a way to divide $2000 by 2 and get $2000 as the answer.

One of the authors visited a dairy farm which was being operated by a father and son. There were 12 cows. The son was disgusted with the dairy business and with milk-marketing agencies. The question which came to mind was: "What would the price of milk need to be

Table 1. Size of Business
100 family farms, New York, 1951

Measure of size	Amount per farm	
	Average	Range
Acres operated	351	115 to 1800
Crop acres	185	46 to 750
Capital investment	$60,520	$16,750 to $153,650
Man equivalent	3.7	1.0 to 19.8
Productive man work units	1095	302 to 5625

to enable 12 cows to support a father and son partnership?"

On some farms where the income is enough to support the father and *one* son, a mistake has been made in attempting to keep several sons at home.

The average size of business of 100 father and son farms included in a recent study of family operating and transfer arrangements is shown in table 1. Most of these were large businesses.

Living Arrangements

A few families with "in-laws" live together in peace and harmony. But for every one of these, there are many where it does not work, especially for the first year or two that the young folks are married. Fuel for extra stoves is a cheaper source of heat than domestic friction.

Many farms have only one house. This brings up the question of what to do when the son gets married. Some have solved this problem by buying another farm and thus increasing the income as well as getting a second house. Others have been able to buy a house and lot near the farm. A few have built an additional house. Some parents have decided that if the farm is to

Table 2. Living Arrangements of 113 Married Farm Sons
100 family farms, New York, 1951

Arrangements	Number of sons
Sons living:	
with parents	2
in trailer	2
in off-farm rented house	6
in apartment in house with parents	16
in a separate house owned by parents	40
in a separate house owned by sons	47
Total	113

stay in the family, they must move to a new location and leave the farm home for the young folks.

In the study of 100 father and son businesses already mentioned, it was uncommon for married sons to be living in the same house as the parents. A large majority of the married sons were living in a separate house (table 2).

Which Son Should Stay Home

Most farms need only one boss. A combination of a 45-year old father and a 25-year old son may mean two bosses for a considerable number of years. The father has some of his most active years ahead of him while the son is ready to shoulder responsibility. In such cases, the family should consider an enlargement or diversification of the business to the point where two managers are needed, or the son should consider getting established elsewhere. Therefore on some farms it is a mistake to encourage the oldest son to plan to take over the home farm. Studies of father and son farm businesses have shown, however, that about as many oldest sons as youngest sons are successfully operating with their father.

On some farms two or more brothers have worked sucessfully as permanent partners in a farm business. More frequently each brother should eventually plan to run his own business. Where two or more brothers are operating the same farm, it is even more important to adopt and carry out sound business arrangements.

Helping the Sons to Get Established on Other Farms

Too many farm boys consider only two possibilities: (1) stay home or (2) move to town. The possibility of moving to another farm is commonly overlooked. If the son starts on another farm in the home community, the father can help him in many ways without a serious drain on the family pocketbook, such as loaning equipment, changing work, and the like, as well as through timely advice.

Ways to Pay the Son

Most farm boys are paid an "indefinite allowance." In one family, this method of "profit-sharing" was carried on between the father and his two sons until the "boys" were well past fifty years of age. The authors have not been able to find any good reason for using this system.

An indefinite allowance might be described as the process of "catching Dad with some money in his pocket." Boys who get their money this way are not likely to see clearly that there is a relation between the work they do and the ice cream cones they eat. It is well to learn early in life that such a system cannot operate.

Young boys

Boys who are still in school or who are not yet ready to take a full share in the whole farming operation should be paid by one of the following methods, or some combination of them:

1. An enterprise or project of their own.

2. A share of the profits from one enterprise.

3. Wages.

Partnership and profit-sharing arrangements often grow out of the son's 4-H club work or some farm project assigned to him. Sometimes, however, the son becomes so wrapped up in his own project that he fails to develop an understanding and appreciation of the farm business as a whole.

The method of paying the boy may well vary from family to family, but should be definitely related to the work he does. A farmer is a businessman. A prospective farmer should learn early in life how to handle his own business affairs.[1] One good farmer has suggested that a boy be paid in some definite manner as soon as he is old enough to walk to the barn.

Older boys

Where a grown son wishes to stay on the farm with his father, a partnership agreement is needed.

Any partnership agreement should cover at least the following six points:

1. Purpose of the agreement
2. Period covered
3. Contributions of each party
4. How the management is to be handled
5. What items are to be considered as receipts and expenses of the partnership
6. How the financial settlement is to be made

Whether the partnership is to be between a father and son or between two persons who are not related, the above six points must be covered. They must be covered whether the business concerned is a farm or a grocery store. They must be covered whether the agreement is oral or written.

Farm profit-sharing agreements commonly involve more than merely dividing the income between partners. They usually involve the following problem as well: "How can a young man get control of a $40,000 farm business and how can an older farmer let go gracefully?"

This problem has increased interest in profit-sharing and partnership arrangements of various kinds. This interest is not limited to fathers and sons. It is becoming more common to find an older man and a young man who are unrelated interested in a profit-sharing arrangement.

How to Share Profits

On pages 10 to 13 is an agreement form that suggests ways to handle the six points mentioned, together with other points of special interest, in father and son partnerships. *This suggested form should be used only as a guide.* Each partnership will need to make adjustments to meet its own situation.

[1]A discussion of the disadvantages of giving children money without regard to the work they do may be found in *How to Give Your Child Security*, by Henry C. Link of the Psychological Corporation, in the Reader's Digest for March 1951.

FATHER AND SON FARM BUSINESS AGREEMENT

This agreement made this .... day of ...., 19..........., by and between .... the father, and .... the son. Witnesseth:

ARTICLE I. Purpose

The aforesaid father and son hereby form this agreement for the sole purpose of operating a farm business on the following described real estate ....

....

situated in the County of ...., in the State of .... and on any other land which said partners may agree to rent for farming purposes.

ARTICLE II. Period Covered

This agreement is to start ...., ..., 19..........,
(month) *(day)*

and to continue from year to year on the terms herein stated until this agreement is dissolved or until it is replaced by another written agreement. The agreement may be dissolved by either party serving notice on the other at least .... months prior to the end of the year on which dissolution is desired.

ARTICLE III. Contributions

A. Labor

Each party shall contribute his entire labor and management to the farm business.

B. Real Estate

The father is to furnish the land and buildings as described in Article I and all material and labor for any capital improvements of the same.

C. Personal Property

The father is to furnish all livestock, power equipment, machinery, and tools used in conducting the farm business. At the begining of the agreement the son shall purchase a half interest in all feeds and supplies on hand that will be used in the business.

ARTICLE IV. Management

A. General operating plans shall be discussed and agreed upon at the beginning of each year. Adjustments that appear desirable during the year shall be made after being agreed upon by both parties.

B. All purchases involving more than .... dollars shall be mutually agreed upon.

C. A joint checking account shall be carried with .... bank. Checks shall be signed by either party.

D. The following financial records are to be kept:

   1. A complete inventory showing ownership and value of all property used in the farm business shall be made at the time the agreement starts and at the end of each year thereafter. All values shall be agreed upon by both parties.
   2. A current record of all farm receipts and expenses, including allowances made to each party, shall be kept.

....

....

ARTICLE V. Receipts and Expenses

Profits for the year shall be calculated as indicated in the following table:

Receipts		*Expenses*	
Cash receipts	$....................	Cash expenses	$....................
Increase in inventory value of property not jointly owned	....	Son's wage allowance	....
		Father's wage allowance .	....
		Interest on the value of property not jointly owned	....
		Decrease in inventory value of property not jointly owned	....
Total receipts	$....................	*Total expenses*	$....................

Total receipts $.................... less *total expenses* $.................... = $.................... *Profit*

Explanation of Items

A. *Cash receipts* shall include all income from the sale of crops, livestock, and livestock products. Also all income from work off the farm

by either party. Also any miscellaneous cash income of the farm business.

B. *Cash expenses* of the farm business shall include fertilizer and lime; seed; purchased feed; spray materials; wages and cash cost of board for hired labor; taxes; insurance; rent for additional land; purchases of livestock; purchases of new equipment; operating expenses of all equipment and tools; repairs and replacements necessary to keep buildings, fences, wells, and drains in good condition; machine hire; electric lights and power; debt payments on debts of the partnership; and other such expenses mutually agreed necessary for the operation of the farm business.

C. The *wage allowance* for each party shall be paid .... (weekly or monthly). The amount of these wage allowances shall be agreed upon at the beginning of each year.

D. Each party shall receive *interest* at .... percent on his investment in property which is not jointly owned, but which is used by the partnership. This interest payment includes interest on debts secured by such property, and interest on the value of the property above the debts.

E. If the *inventory of property not jointly owned* has increased or decreased, an adjustment must be made in the final settlement. If the property has increased in value, the partner who owns it owes the amount of the increase to the partnership. If the property has decreased in value, the partnership owes the owner the amount of the decrease. Increases or decreases in inventory of livestock and equipment should not include changes in value due to general changes in prices. Include only changes due to more or less livestock and equipment, or better or poorer livestock and equipment.

ARTICLE VI. Financial Settlement

Each party is to have one-half of the profits as calculated in Article V. A complete financial settlement shall be made at the end of each year.

ARTICLE VII. Living Arrangements

Living arrangements are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared the same as other farm operating expenses. If either party furnishes the board of the other, the party so furnished shall pay to the one providing the board .... dollars per month as his share of the cash cost of such board.

ARTICLE VIII. Death of Either Party

At the death of either partner this partnership agreement shall terminate. Dissolution of the partnership shall be effected in the following manner:— ....

....

....

ARTICLE IX

It is further agreed that ....

....

....

ARTICLE X. Arbitration

If any matter pertaining to the farm business cannot be settled by mutual agreement, that matter shall be submitted to one disinterested person agreeable to both.

....
Father

....
Mother

....
Son

....
Son's Wife

Explanation of Points in the Business Agreement

Article I. Purpose: One or both partners may have business activities outside of the partnership. This section of the agreement should indicate what activities are to be included in the partnership.

Article II. Period Covered: Experience has indicated that a one-year agreement, with automatic renewal if no changes are needed, is perferable to a long-term agreement. Changes in family circumstances bring about the need for changes in the agreement. A ten-year agreement will not last 10 months if it does not meet the needs of the persons involved.

It is common to require about three months notice if either partner wishes to change or dissolve the agreement.

Article III. Contributions: In some cases the father (senior partner) does not expect to work full-time. This should be agreed upon at the beginning of the year.

Real estate and personal property may be owned in a variety of patterns. Commonly the senior partner owns all the real estate.

Usually the son (junior partner) should purchase a half interest in the feed and supplies when the partnership is started. He should buy a half interest in all personal property as soon as possible. This is frequently done by borrowing from the senior partner, the junior partner giving a note for the amount which he is unable to pay in cash.

There are two reasons why the son should obtain ownership of half of the personal property as soon as possible:

1. The son should get started on the job of taking over the ownership.
2. The calculation of the amount due each partner will be simpler if the personal property is owned jointly.

Article IV. Management: A key point in partnership operation is the separation of the business affairs of the partnership from the personal affairs of the partners. This means having a checking account into which all farm receipts are deposited and from which all farm expenses, *but no personal expenses,* are paid. Weekly or monthly wages should be paid to each partner.

This checking account should be a joint account, but it usually works best to have one person keep the records and write the checks. When a check is drawn to the order of either partner, it may be desirable to have it signed by the other partner to prevent possible misunderstandings.

Article V. Receipts and Expenses: The plan of this agreement is to:

1. Pay all expenses of running the business from undivided income.
2. Pay wages to each partner.
3. Pay interest on investment in property not jointly owned.
4. Adjust for inventory changes in property not jointly owned.

After these expenses have been paid, the balance is to be divided equally between the partners. If there is a deficit, each is to contribute equally to make up the deficit.

This plan is based on the idea that the best partnerships are equal partnerships. If a young man is ready to enter a partnership at all, he is ready to enter as an equal partner.

As an example of how such a plan would work out the following situation is assumed:

The main farm is owned by the father. The son owns a small farm and a half interest in all feed, supplies, and equipment. The cattle are owned by the father.

Receipts

Cash receipts	$30,000
Increase in inventory value of cattle (all of which are owned by the father)	2,000
Total receipts	$32,000

Expenses

Cash expenses	$22,000
Son's wages @ $150 per month for 12 months	1,800
Father's wages @ $150 per month for 10 months	1,500
Interest on value of the home farm (owned by the father)	1,500
Interest on value of son's farm	350
Interest on beginning inventory value of cattle (owned by father)	732
Total expenses	$27,882

Total **receipts** ($32,000) less total **expenses** ($27,882) = **$4,118 profit.**

Article VI. Financial Settlement: In the above example settlement at the end of the year would be as follows:

For the father

Interest on value of farm	$1,500
Interest on value of cattle	732
Half of profit	2,059
	$4,291
Less increased inventory of cattle	2,000
	$2,291 cash due

For the son

Interest on value of his farm	$ 350
Half of profits	2,059
	$2,409 cash due

Article VII. Living Arrangements: Where possible, experience has shown that it is desirable for married sons to own their homes. The expense of upkeep of homes for both partners is then considered as personal. This makes for better harmony among all persons concerned. Also a young couple who own their own home are more likely to "stay put."

Legal Aspects of Father-Son Partnerships

FREQUENTLY the legal aspects worry persons planning a partnership arrangement. The two aspects most commonly mentioned are (1) unlimited liability and (2) termination at the death of either partner.

Each partner has unlimited liability for suits against the partnership. Most of this risk can, and should, be covered by liability insurance. Experience with father and son farm partnerships has usually shown the unlimited liability to be unimportant. Relatively few farmers own much outside of the farm business. If a farmer's money is all tied up in the farm business, his business liabilities and his personal liabilities are the same thing.

A legal partnership is automatically terminated at the death of either partner. This fact should be recognized by any one going into a partnership. The method of dissolving the partnership in such event should be arranged with the aid of legal counsel.

Farming on Shares

SOME fathers and sons have tried "farming on shares," with the father as landlord and the son as tenant. "Farming on shares" is most commonly thought of as an arrangement where the farm owner furnishes the farm, the tenant furnishes the labor, and the ownership of stock and equipment is shared in various ways as are cash operating expenses. Income is commonly split 50–50.

In general, such arrangements mean that the owner's investment in real estate is matched against the tenant's labor. If the labor force consists of the tenant and a hired man, the total value of labor for the two persons might be $4000. This is equal to interest at 5 per cent on $80,000. The real estate on a two-man operation in the Northeast will not usually be worth this much. Labor costs have risen so much in recent years that traditional methods of sharing income are usually unfair to the tenant.

For father and son arrangements an equal partnership as recommended in this bulletin is preferable to any share-rent agreement. An equal partnership avoids the question of "Is it fair?"

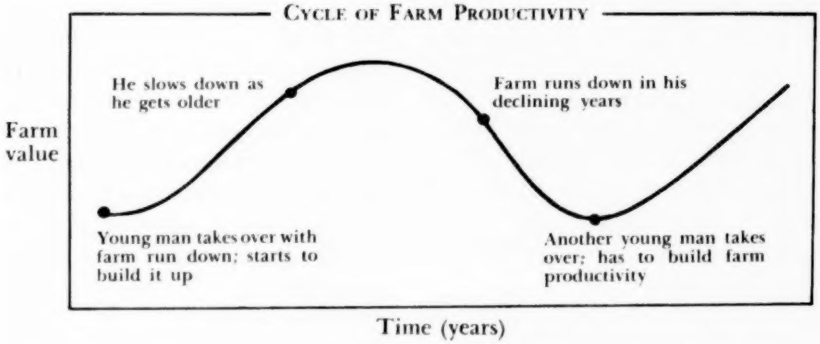
Shifting Farm Ownership to the Next Generation

SHIFTING the ownership of the farm from one generation to the next has bothered mankind in various countries as long as there have been farms. In England, for example, the common practice has been to leave the farm to the first-born son. This keeps the farm intact, but it is rather hard on the sons who were not fortunate enough to be born first. To Americans, this appears to be an undemocratic procedure. In parts of the Rhineland in Germany, for many generations, the custom was to divide the farm among all the children. This resulted in each farmer owning many scattered tracts of land – an inefficient arrangement. In the United States, a common practice has been to leave the farm to all the children, share-and-share alike. In most cases, one of the children has bought out the others or the farm has been sold and the proceeds divided among all the children.

Our practice has resulted in many difficulties. In a large family, the prospect of inheriting one-fifth or one-sixth of the farm has often appeared unattractive. So, on many farms, all the sons have left home, leaving the parents with a farm which they are unable to handle. If definite arrangements had been made with one of the sons as to how he might start to buy the farm before he is of middle age, he might have agreed to stay home.

The Cycle of Farm Productivity

To understand the problem, one should consider the "cycle of farm productivity" as it occurs all too often. A young man buys a farm which has been run down. He



builds it up by increasing the amount of livestock, spreading manure on the back fields, repairing buildings, building new fences, picking stones, buying lime, and many other things. Sooner or later he reaches the age when he ceases to farm actively. If he is alone on the farm, the "building up" process is now reversed. He raises fewer livestock, neglects to repair the buildings, buys little or no more lime, and spreads the manure only on the fields near the barn.

If there is a son at home when the father gets ready to let up a bit, this decline in farm productivity will be prevented. If, however, the son knows what he is doing, he will not want to stay on this farm and add to its value, unless he is given some assurance that it will eventually be his own.

Too frequently, however, there are no definite plans as to how the father's ownership of the farm will be transferred to the son. Because of the lack of such plans, the son may give up and leave the home farm, or he may continue to farm with his father without any definite security that he will ever own the farm. Either situation may bring hardships for members of the family.

Examples

A son left because of lack of a transfer plan

One of the authors visited a farm family where a father-son profit-sharing agreement was in operation. The farm had been in the family for five generations, and apparently the parents were anxious that it be kept in the family. A fair profit-sharing arrangement had been worked out with the son. A new home had been built on the farm for him. The father doggedly refused, however, to make any definite arrangements as to how the son should eventually take over the farm ownership. "If he wants it," he said, "he can buy it when I'm gone." There were several other children and the father was in comparatively

good health. The son felt that if he stayed on with his father he would eventually be faced with the problem of buying out the other children – probably after he had reached or passed middle age. He left the home farm and purchased a small nearby farm. The father subsequently sold his livestock and put the farm up for sale.

Because no definite arrangements were made to transfer the ownership of the farm from the father to the son, both have suffered. The father has had to see the farm operation discontinued, and faces the prospect of seeing the family farm sold. His income has been reduced and his financial security jeopardized. The son is operating a small farm unit with limited capital. His income and financial security have also been endangered.

A son remained at home without a transfer plan

In the foregoing instance, the son gave up and left the home farm because of the lack of a plan to transfer the farm ownership to him. In other families the son has stayed on at home without any definite security that he will ever own the farm. This, too, can result in hardship and heartache for the family members involved. On one farm, a father and son operated the business for twenty-five years with the verbal understanding that "the son would get the farm when the father was through with it." The father intended to make a will giving the farm to the son, but he never did it. The father died suddenly and his property was divided among his wife and five children according to the state laws of intestate succession. For twenty-five years the son had poured his labor and earnings into building up the farm only to find that legally he owned only two-fifteenths of it. To make matters worse, his brothers and sisters, who had never taken an active part in the farm business, refused to sell their shares to him because he is childless and they wished to make some provision to keep the farm in the family name. In this case, the son would have been better off to have left the home farm early in life.

It is, therefore, important that the father and son business arrangements do not stop with a plan to split income. Some plan should be made to transfer the ownership to the next generation.

Objectives of a Transfer Plan

What objectives should be kept in mind in making transfer plans? Commonly, there are four:

1. The financial security of both mother and father must be protected. The parents should not give, trade, or sell away their means of support in old age. Frequently, though, the parent's financial security can be improved by making a fair plan of transferring farm ownership to the next generation. With modern farming, the ownership of

real estate does not, in itself, provide security. Security in modern farming is dependent upon a successful business.

2. The son and his family must be given assurance that they will own the farm — and on what terms.

3. Farm owners also want to be fair to the children who are not taking part in the home-farm operations. This does not mean that all children should be given equal shares of the home farm, because usually the son who has stayed at home has contributed more to the growth and prosperity of the business than have the others.

4. It is important to all family members and to the community as well to see that the farm continues to operate at a high level of productivity while the shift in ownership takes place.

These are the objectives that farm families should think about when they begin to plan to shift the ownership to the next generation.

Methods of Transferring Family Farms

The various methods used to transfer farm ownership from one generation to the next may be grouped as follows:

Transfers during the lifetime of the owner:

1. Outright sale
2. Purchase contract
3. Bonds of maintenance and annuity plans
4. Gifts

Transfer at death of the owner

1. Intestate Laws of succession
2. Wills
3. Life estates
4. Joint tenancy

No one method of transfer can be recommended for all farm families. The best method for any one family depends mainly on (1) family circumstances and (2) farm characteristics. Each of the methods of transfer listed have certain advantages and limitations. The most important are discussed on the following pages.

Commonly the farm property is transferred from father to son through a combination of two or more of the methods or tools of transfer.

Transfer During the Lifetime of the Owner

Outright Sale

Where unrelated parties are concerned, farm transfers are usually brought about by an outright sale where the buyer gives a mortgage for at least a part of the purchase price.

The same method is sometimes used when the transfer of ownership is within the family. When it is possible for the son to make a sizeable down payment, the outright sale method has many *advantages:*

NO. 1873

Dan Rogers
Susan Rogers
to
James Rogers
Anne Rogers

WARRANTY DEED

County Clerk's Office
Washington County

Received for record this 3rd day of Jan. 1953 at 2:00 P.M. Recorded in Vol. 372 of Deeds on page 162

1. It is a businesslike way to get the job done.

2. The problem of treatment of various heirs is separated from the problem of farm transfer. As a result, all parties are more likely to have fair treatment.

3. The young man can start to pay for the farm while he is best able to do so.

4. It eliminates the cycle of farm productivity (page 17) which often happens when an old man allows the farm to run down.

There are some *disadvantages* to a transfer of ownership by outright sale:

1. The parents lose control of the property.

2. The tax cost to the seller may be greater than if the transfer is made by gift during his lifetime or at his death.

3. The son seldom accumulates enough cash to make a sizeable down payment early in life.

By adapting the sale to the family situation, most of the disadvantages of transfer by sale can be eliminated. Even though the parents lose control of the property, their financial security need not be endangered if the funds they receive from the sale of the farm are carefully invested.

The tax problem can be minimized. By making the sale with less than 30 per cent down payment, the seller can report the income from sale over a period of years and thus pay less total tax.

Usually the son is unable to accumulate enough cash early in life to make a fair down payment. This is the chief limitation of the outright sale as a method of transfer. Sometimes the parents sell to the son by outright sale even though he can make little or no down payment. This is seldom the best solution. Unless a substantial down payment is made, the parents' financial security may be endangered. Usually, a prospective farm purchaser must pay at least a third of the farm value in cash. It is suggested

that when the sale is within the family, the son should pay at least a fourth of the purchase price before he is given title to the farm.

Sale on Contract

When a farm is sold by purchase contract, a written agreement is made between buyer and seller. This agreement specifies that the seller agrees to convey the farm to the buyer at a certain agreed price, but the buyer does not actually gain legal ownership of the farm until some future date – commonly after he has paid a certain percentage of the selling price in regular installments.

What actually happens is that the buyer takes possession of the farm as soon as the contract is signed. He makes little or no down payment, but starts paying as soon as he starts operating the farm. The seller retains ownership until part or all of the purchase price has been paid by the buyer. Because the seller retains legal ownership of the farm, his investment in the farm is better protected than if he sold it outright and took back a mortgage for the entire selling price.

Sale by purchase contract has all the advantages of an outright sale. It is a businesslike way to get the job done. The problem of dividing the parents' estate among the children is separated from the problem of shifting farm ownership. The young man can start paying for the farm when he is young and best able to do so.

In addition, sale by contract eliminates most of the disadvantages of the outright sale. The parents do not completely lose control of the farm, and their financial security is better protected. Most important of all, the son can gain possession of the farm even though he has little or nothing to pay down.

NO. 5872

William Johnson
Jane Johnson
to
Robert Johnson
Ruth Johnson

LAND CONTRACT

County Clerk's Office
Washington County

Received for record this 4th day of January 1953 at 2 o'clock P.M. and recorded in Vol. 387 of Deeds on page 252

Advantages of transfer by contract

The most important advantages of the purchase contract as a method of shifting farm ownership from father to son can be summarized as follows:

To the son

1. Often the purchase contract is the only way in which a son with few cash assets can secure a farm.
2. It allows the son to gain possession of a farm early in life. The regular payment schedule encourages him to build up an equity in the business during his young and productive years.
3. The use of the purchase contract makes it possible to adopt flexible payment plans.

To the father

1. It gives him an opportunity to retain his investment in a farm business over which he has some control.
2. It provides protection of his investment because it is easier to eject a buyer under purchase contract than to foreclose a mortgage.
3. It makes possible a sale to a son who has little or no cash to pay down.

There are also some disadvantages of sale by contract. The main disadvantage from the buyer's point of view is that he has a less secure hold on the property while he is paying on the contract. The main disadvantage to the seller is that he is placed in the position of extending more credit than any lending agency would authorize.

A family farm transfer by purchase contract

The purchase contract is a popular way to transfer the family farm from one generation to the next in some parts of northern New York. In a recent study of family farm transfers, seventeen sales by purchase contract were investigated in that area. The circumstances surrounding one of these transfers by contract can be used to illustrate the advantages of contract transfers.

In this instance, the father owned a 160-acre dairy farm and a herd of 35 cows. He had one son and one daughter.

The son finished school and worked for his father for wages for several years. He married and moved into an apartment in the main farm house.

The farm business prospered, and the father paid all farm debts, saved some money, and bought a house in a nearby village. Meanwhile, the son's family was growing. He was approaching thirty years of age and thinking about buying another farm. The family decided that it would be to the best interest of all to sell the farm to the son. As the son had little cash for down payment, the decision was to sell the livestock, equipment, and farm to him on purchase contract.

The father offered to sell at a price well below the market value of the farm. In setting the price he took into consideration (1) the financial needs of himself and his wife in their declining years, and (2) the

contribution which the son had made in building up the farm business.

The provisions

The purchase contract included the following provisions:

1. An interest rate of 4 per cent.
2. The payments were to be one-third of the milk check each month except the month of December. These payments were to be applied first against the interest due and then on principal; $500 was to be considered the minimum annual payment on principal. The milk plant was to write two checks each month; one to the son for two-thirds of the value of the milk delivered, one to the father for one-third the value of the milk delivered.
3. The son was to maintain the same number of livestock on the farm as were transferred by contract.
4. All of the stock and equipment raised or purchased by the son as replacements for those transferred in the contract were to be the property of the father until payments on the contract were completed.
5. The son agreed to cut only enough lumber for fuel and building repairs.
6. The son agreed to pay the taxes and carry a specified amount of insurance.
7. The son agreed to maintain the premises in good condition.
8. The son was to receive legal title after completing payments under the contract.
9. The son had the privilege of paying any amount on the contract at any time.
10. The father could eject the son and regain possession immediately if the son failed to perform any of the conditions specified in the contract.

This son has been in possession and has been paying on the contract for two years. After the son took over, father and mother moved to the village. Father works for the son part-time and does part-time work in town. All family members are well pleased with the arrangements. The son has had no difficulty in meeting the payments as they come due.

This contract arrangement is typical in many respects of the contracts found in force among families of the area. In some cases, the son receives legal title after paying one-half or two-thirds of the contract price. This is a more equitable arrangement.

Variable payment plans

The payment schedule based on a portion of the milk check is common on dairy farms transferred by contract. Experience has shown that a dairy farmer with little equity in his business cannot expect to pay more than from one-fourth to one-third of the milk check on his contracted debt.

Such a plan amounts to a variable payment plan, for the payment on the debt varies with the price of milk and production of the specified

number of cows. This is an advantage to the son, for the payments required are more or less in relation to his ability to pay. The rate of payments may also bear some relation to the parents' need for income, as the price of milk can be expected to be generally related to the cost of living.

The payment schedule in a purchase contract transfer can be varied in a number of ways to suit the needs of the family members concerned. In some instances the family may want to provide that the son continue payments only as long as the parents live.

In one situation studied, the family wished to transfer the farm to the son at a price which would not be ruinous to either parents or son if a large-scale inflation or deflation occurred after the sale but before payments were completed. The farm was a dairy farm and was sold for an agreed number of thousand pounds of milk. This type of contract based on a variable sale price has much to recommend it.

Bonds of Maintenance and Annuity Plans

In some sections of the country parents who transfer the farm to the son commonly take in part or full payment the son's agreement for maintenance or support. To secure the performance of the son's services, the parents can deed the farm to the son with a condition expressed in the deed. The condition can state that if the son fails to perform certain acts of support, the title will revert to the parents.

". . . and as a further consideration for the premises conveyed, the party of the second part agrees that he will at all times board the parties of the first part in the house on the premises hereby conveyed. . ."

In exchange for a deed to the farm, the son may agree to furnish his parents a monthly allowance, living accommodations, farm produce, care in case of illness, and so forth.

Here is an example of how a deed was written to transfer the ownership of the family farm from grandparents to a mother and her son, in exchange for the support of the grandparents:

> ...In consideration for this transfer to the second parties by the first parties (grandparents) it is mutually agreed that the first parties shall continue to live as a part of the family in the house where they now live on the home farm herein described for and during the terms of their natural lives and without any charges whatsoever being made against them by the second parties. The first parties will not be required to do any work and shall be provided the necessities of life and a good living free of charge so long as they shall live in said residence...

The principle involved in such support contracts or bonds of maintenance is that of annuity — widely used in the insurance field. Farm couples commonly compile their life savings in the form of farm investment. If they desired, they could

sell the farm property and invest their money in annuities which would pay a guaranteed income for life. The size of the income would depend mainly on the amount they invest and their age at investment.

In effect, this is what farm couples do when they turn their farms over to a son in exchange for his agreement to support them for life. This method of transferring the family farm has the following *disadvantages:*

1. Unlike a life insurance company, the son cannot "spread" the risk of long-lived parents. Consequently, he faces a real possibility of paying an exorbitant price for the farm.

2. The arrangement can result in legal complications.

3. The farm son alone shoulders the risk of long-lived parents. The other heirs take none. Yet in the event of the early death of the parents, the other heirs almost surely will resent the "bargain" which the farm son gets.

The first listed disadvantage above is enough to limit the adoption of this method of transfer.

The bond-of-maintenance principles have been carried over from Old World cultural backgrounds where the children assume the responsibility for the parents' support. In present-day farm families, parents do not wish to become dependent upon their children and the children do not wish to have them. It is to be expected that the bond-of-maintenance method of shifting farm ownership to the next generation should be declining in popularity.

Gifts

A farm owner who can afford it may transfer his farm property to the next generation as a gift. Outright gifts of farms to the next generation are few, but many family transfers have some element of gift in them.

Family farms transferred by sale are often sold at a price below the market value. Sometimes interest rates are lower and payment terms are more liberal. On the other hand, the son often does not receive compensation in full for his contribution to the farm business during his youth. Reduced purchase price, low interest rates, and easy payment terms may be justified in view of the son's efforts during his early life to build up the farm business.

It often happens that the parents give the son some farm property. It is important that both parties understand the nature and extent of such gifts. If the gift is large, a disinterested appraisal of the farm property is advisable. This can serve to indicate to all family members just what is being given and what is being paid for. Also, accurate determination of the size of the gift is needed to file income and gift tax returns.

In many cases, though, a disinterested appraisal of the value of the son's contribution to the business and the market value of the farm property at the time of transfer would show that the transfer had actually been made at a price which could properly be called a partial gift.

Advantages of transferring farm property by gift are the following:

1. Gifts of farm property can be made to the son early in his life regardless of his financial situation, and he can thus realize security of ownership.
2. Bonafide gifts are not subject to taxation as income.
3. Transfers by gift involve less legal expense than other methods.

Disadvantages of transfer by gift include the following:

1. It may make the parents dependent upon the son for their livelihood.
2. It may be unfair to other heirs.
3. Transfer by gift is unbusinesslike and may result in family misunderstandings.
4. Gifts in large amounts are subject to taxes.
5. Gifts may be injurious to the character of the son.

It is seldom possible for living parents to make outright gifts of farms to sons. It is even more seldom that such gifts could be justified. Most sons are not looking for a gift of the home farm, but a chance to start payment early in life.

On the other hand, it is logical in many family transfers for the parents to make certain concessions to the purchasing sons in the nature of reduced purchase price and interest rates or easy terms. In such cases, the parents usually realize a return on these concessions. The return may have accrued to them in the past in the form of unpaid labor by the son. It may be in an intangible form; for instance, it often means much to the parents to see the farm remain in the family.

Transfer at Death of the Owner

Intestate Laws of Succession

All too often, farm owners die without making a will or other legal arrangements for the disposition of their property. The courts, therefore, divide the property among the heirs according to the state laws of intestate succession. These laws differ from State to State. Invariably, however, they provide that heirs of like relationship be treated alike.

The farm owner who leaves the division of his property to the Laws of Intestate Sucession gains nothing. On the other hand, there are serious disadvantages if one allows the farm property to be transferred to the next generation in this way. Some of the most important *disadvantages* are:

1. The property is not likely to be divided as the owner would have

liked. The law treats all children alike, because the law has no basis for treating them otherwise. This means that the son who has always helped at home gets no more than his brothers and sisters.

2. The son who is operating the farm may leave because he cannot be sure he will own the farm in the future. He may also let the farm run down because, if he builds it up, he may have to pay twice for the improvements he made—once when he makes them and again when he is forced to buy the shares inherited by the other children.

3. The son who operates the farm may have to give up the farm when his parents die. This happens when the other heirs refuse to sell to him or when he cannot raise enough capital to buy them out.

4. Bitter conflicts are more likely to develop within the family at the death of the owner.

5. When farm owners leave the division of their property to the law, the expenses of death taxes and administration of the estate are frequently high.

Financial loss and family dissension

Almost anyone acquainted with farm families can search his memory and recall one or several unhappy results of the dependence upon the laws of intestate succession as a means of transferring farm ownership.

One such case concerns a father of a large family. This father, with the help of his sons, built up a big dairy farm business. A few years ago the father died without a will. The three sons who had helped him build up the farm had little to show for their efforts. They inherited equal shares with their brothers and sisters. Settlement of the estate has been difficult, slow, and costly. Half the cows were sold to pay the expenses of settling the estate and to give some of the non-farm brothers and sisters the quick settlement they demanded. The three farm sons have had to struggle to keep going on the income from the remaining cows.

If this father had helped the sons gain ownership of at least part of the farm property before he died, and had made a will giving them their fair share of the remainder and a chance to buy the rest, he would have saved his family much expense, worry, and hard feeling.

Cases of this kind are common. A recent study of father and son farm businesses showed that more than one-third of the fathers had failed to make any plans for the transfer of the farm ownership to the son. In all cases studied, the son was more than 18 years of age and was working full time on the farm.

About Making a Will

1. **Every farm owner should do it.**
2. **It is a job for a lawyer.**
3. **It is inexpensive – $5 or $10 unless the provisions are complicated or unusual.**
4. **The farm owner who makes a will may save his heirs hundreds or even thousands of dollars.**
5. **Wills sometimes need to be changed or rewritten to keep abreast of changing family circumstances.**

Wills

Every farm owner should have a will, but the will is seldom the best way to transfer farm ownership to the next generation.

Wills are popular as a method of transferring the farm because:

1. A will leaves absolute control of the property with the owner as long as he lives.

2. It can be used to direct the use of the farm for some time after the owner's death by the creation of life estates.

3. It permits the owner to fit the distribution of all his property to the family situation as he thinks best.

Serious *disadvantages,* however, go along with the will as a transfer device. The most important of these are:

1. Wills can be changed. They offer no real security to the son that he will eventually own the farm.

2. Wills sometimes fail to carry out the wishes of the owner because they are poorly prepared or because family circumstances change before the will takes effect.

3. Wills frequently give a farm son only part ownership, and make it necessary for him to start paying off the other heirs when he has reached or passed middle age.

4. A will permits the owner to dictate as to who shall own the farm for many years after his death. This may cause individual hardships because it is impossible to foresee all changes in economic and family conditions.

5. Reliance on a will is often misplaced, for the will frequently never gets drawn or becomes invalid.

A successful transfer by will

In some cases, transfer of the farm by will is satisfactory. A successful transfer by will came about in the following case. The son worked a good farm in partnership with his father for 12 years. During that time the son gained ownership of one-half the livestock and equipment. When the son married, the main farmhouse was divided to provide an apartment for each family. When the mother died, the son offered to buy the farm from his father, but was refused. Instead the father offered to will the farm to the son in exchange for a $50 monthly income and a home for life. This arrangement was agreed on, and the father made a will containing the following provision:

In consideration of his having lived with me and made a home for me for many years, I give, bequeath, and devise unto my son my farm of 190 acres, together with livestock, equipment, etc.

This bequest is on the express condition that he pay $200 to each of my other seven children with interest at 4 percent from date of my death, and that said payments be made within three years of my death...

Four years after the will was drawn, the father died. His will served the following purpose: (1) the father had the security of farm ownership during his lifetime, (2) the father had the privilege of dividing his property among his children as he saw fit, and (3) the son was able to buy out the other heirs without disagreement over the amount of their shares.

The son was always somewhat concerned over the possibility that the father might change his will, but had enough faith in his father that his peace of mind was not greatly disturbed.

No security of future ownership

Frequently the transfer by will does not work so well. A father recently died at the age of 95 and left his farm by will to his two sons, aged 63 and 52. The sons had operated the farm with their father for more than 35 years, but had never owned any of the farm property. Even though there were several other heirs, the two sons who had farmed with their father did not know until the day their father's will was read whether they would inherit the farm.

These sons emphatically condemn the will as a method of shifting farm ownership. Like most farm sons, they would have welcomed the opportunity to pay for the farm if they could have started at an early age. The feeling of insecurity which this method of transfer placed upon them was a hardship which could have been avoided.

Not always the intended distribution

Sometimes a father's will is used merely to transfer all his property to his wife at his death. For the farm owner, this act merely shifts the burden of transferring the farm to the next generation from his own shoulders to those of his wife. It does not always work the way the father thinks it will, either. For example, one farm owner willed all his farm property to his wife, even though he had three sons old enough to share in the farm ownership. Soon after the father died, his widow remarried. At present she has no will and has made no provisions for the sons to take over the ownership. When she dies, the new husband will own as much of the farm as is provided by law, or as much as she leaves him by will. In all probability, the original owner would have disposed of his property differently if he could have foreseen the events to take place.

In transfer plans

When a farm owner's children are young, he does not know which son or sons will eventually take

over the farm. It is advisable for him to make a will that states how the farm property will be divided among the heirs. In one such instance a man had a big farm and a large family. When the sons reached their teens, it appeared that at least two of them would sometime be interested in taking over the farm. The father made a will giving the sons an option to buy the farm at their father's death. An excerpt from this will follows:

> ...I direct that my sons be given the opportunity at any time within one year following my death to purchase my farm and my farm business at a reasonable price. The value of the farm, farm equipment, produce, supplies on hand and livestock to be determined by those directors of the __________ County National Farm Loan Association who live in __________ County together with the secretary of said association acting as appraisers. Such sum shall be reduced by twenty per cent (20%) in order to arrive at the price to be paid by my sons. It is my wish and I direct that my three sons shall have this opportuny to buy or if only two or one so desires then they or he shall be given the same chance to make such purchase...

This family does not intend to wait for the will to transfer farm ownership. The sons will start to buy a share of the ownership as soon as they are able. But the will serves as a stop-gap measure which will avert trouble if the father dies suddently. The most important functions of this will are that:

1. It gives the sons an option to buy.

2. It states how the selling price will be determined.

It could have included a provision stating the payment terms.

A will of this type would be useful and valuable in the transfer plans of many farm owners.

The contract to will

It has been pointed out that one of the main disadvantages of transfer by will is the uncertainty which goes with it. Ordinarily the maker of a will can change it any time prior to his death.

Under the laws of New York and of some other States, the parent can enter into a contract not to change the will. If the parent later attempts to break the contract, the courts will enforce it.

Although the contract to make a will may eliminate the disadvantage of uncertainty which normally goes with a transfer by will, it introduces the following other disadvantages:

1. It is a more complicated and therefore less appealing method than transfer by will alone.

2. The parents lose control of the disposition of the property as surely as if they had sold it.

3. Lawyers are not accustomed to its use.

Last Will and Testament

. . . I give and bequeath the homestead farm of 127 acres to my son, John Henry Thompson, subject, however, to the life use thereof heretofore granted my wife Sophie Thompson, by deed dated June 20, 1952.

Life Estates

The holder of a life estate in land can use it and enjoy it only during his life or the life of someone else. Life estates are usually created by a deed or a will. As they can be created by deed, they can be used to transfer ownership during the owner's lifetime as well as at his death. The most common use of life estates in transferring farms, however, is in the wills of farm owners.

The chief *advantages* of transfer of ownership by life estate are:

1. It can be used to insure ownership for the younger generation with the farm income retained by the older generation during their lifetime.

2. It may help to keep the farm in the family.

Disadvantages are more numerous and more important; they include:

1. The life tenant may not improve or even keep up the farm because of his limited ownership.

2. While it insures the son of eventual ownership, there is nothing definite about when he will become owner.

3. It is impossible to foresee economic and social changes inside and outside the family. For this reason the life estate may work a hardship on the life tenant or on the remainderman (the person who gets it after the life tenant).

Here is an example of a will used by a grandmother to transfer the family farm to her grandchildren.

> ...I give and bequeath to my husband ...., the life use of my homestead farm of 79 acres more or less, in the town of ...., ... County, New York and upon his death it shall go to my son ...., title of said farm to rest in and belong to the children of my son........................, it to belong to them absolutely...

The grandchildren — two girls and a boy — inherited the remainder interest following the death of the life tenants. The grandson bought his sisters' interests and is now the sole owner.

Use of the life estate in this case was unsatisfactory to the grandson, the son, and the husband. The farm business was handicaped for years by lack of sufficient size for efficient operation. Husband and son knew this, but due to their limited ownership were unable to borrow on the farm to obtain funds to enlarge it.

If different transfer arrangements had been made, the life tenants might have farmed more profitably during their lifetime and passed on a more profitable business to the grandson.

The use of life estates in transferring the family farm is an awkward arrangement which frequently leads to dissatisfaction or actual hardship for one or more of the parties concerned. The cases where life estates can be successfully used are limited.

Joint Ownership

Owning property jointly with right of survivorship is one method of transferring ownership. Laws governing joint ownership of property vary from State to State.

Where two or more persons own property together, they should make sure that they know what will happen to the ownership in case of the death of one of the owners. It is also important to consider the possibility of the simultaneous death of both owners, and to make some provision for the occurrence of such an event.

Joint ownership as a transfer tool between generations has limited and specific uses. It must be used with the greatest of care if it is to do the job that it is intended to do.

Incorporation as an Aid to Transfer

INTEREST in the family corporation as a farm business arrangement has been increasing. In some ways, incorporation aids in transferring ownership from one generation to the next because the corporate form of business organization provides for flexible ownership. The ownership is represented by shares of stock. These shares can be divided among family members in any manner desired. This has the following *advantages* for shifting ownership from one generation to the next.

1. Stock certificates provide a businesslike way to determine ownership.

2. Parents can distribute their farm property among any number of children in a fair manner.

3. Ownership can be transferred to each son as he becomes old enough to share in the management of the business.

4. The father can gradually relinquish ownership by transferring stock to the children over a period of time.

These advantages all stem from the flexibility of ownership in a corporation. They may provide a strong argument for incorporation when the farm business is large and several family members are involved in the management and operation.

Another advantage of incorporation is that it provides some measure of insulation from personal liability of family members to the business.

There are definite *disadvantages,* however, when the farm business is incorporated. A large amount of red tape and extra bookkeeping is involved. Legal costs of incorporation are a factor. Income tax is likely to be greater under corporate operation.

Many misconceptions prevail as to what incorporation will accomplish. It is not a cure-all for family squabbles or financial difficulties.

In summary, incorporation may be desirable for some large families operating large farm businesses. It is largely a matter of balancing the advantage of flexibility of ownership allowed by incorporation against the extra costs and red tape involved.

Tax Problems in Transferring Farms

PAST generations of farm families have seldom been troubled with tax problems in their farm transfer arrangements. The day is past, however, when farm owners can ignore tax considerations in their plans for selling, giving, or willing the farm to the next generation.

Four principal taxes must be taken into consideration by farm owners in planning for the transfer of their property to their children. These taxes are:

1. **The federal estate tax.** This is a death tax levied on the transfer of property at death. The exemptions are quite liberal. Careful estate planning before death is, however, necessary to take full advantage of these exemptions. Only the estates of owners of large farms are affected by this tax if advance planning has taken place.
2. **The federal gift tax.** This is a tax on transfers of property during the lifetime of the owner which are *not* made in contemplation of death. The gift tax is a necessary adjunct to the estate tax. If the gifts are made over a period of years, exemptions allow for large amounts of property to be transferred tax free. Again, advance planning is necessary in order to minimize tax payments where large farms are to be transferred by gift.
3. **Income tax.** The capital gains feature of the Federal Income tax law and some State Income tax laws must be given consideration if the farm transfer takes place by sale. If the farm is sold for more than it cost, the gain is subject to taxation. Usually only one-half of the gain is taxable if the property has been held six months or longer.
4. **State estate or inheritance taxes.** Some states impose estate or inheritance taxes. The method of imposing the tax, the exemptions, and the rates vary widely from State to State.

Under the present tax laws, only the very large farms would suffer heavily from any of the taxes discussed. All farm owners should be alert to the possibility of tax payments, however. Furthermore, it is quite possible, in view of the trend in cost of government, that gift and death tax exemptions will be substantially lowered and rates substantially increased in the future.

In addition to the problem of planning for minimization of tax loses in the estate, owners of large farms should give consideration to the maintenance of sufficient liquid cash to cover estate and inheritance taxes as well as other estate expenses. Failure to recognize this problem in estate planning could result in forced sale of farm property at a loss. Sufficient liquidity could be achieved by a moderate investment

in life insurance or readily marketable securities.

The services of a lawyer should be obtained by every farm owner in transferring farm ownership. In transfers involving large farms, it may be advisable to retain the services of a lawyer especially trained in tax law or of a skilled accountant.

How to Develop a Sound Transfer Plan

OUT of a study of transfer arrangements of 100 New York farm families have come these suggestions for developing sound, businesslike plans for shifting farm ownership from one generation to the next.

1. Discuss the problem with all family members concerned.

The disposition of the father's property is a hard thing to talk about. It is human nature to shy away from any topic related to the death of the family members.

In non-farm families, what father and mother do with their property at death may be strictly their own business. In farm families this is not true. The son's livelihood is tied to the farm, and the parents livelihood may depend upon the son staying on the farm.

Even if it is planned to delay transfer of ownership until after the father's death, it is important that the son at home and the other heirs know about the plan.

No matter how hard it is to get started, the problem has to be talked over among family members before a transfer plan can be made.

2. Keep the change of ownership from father to son on a businesslike basis.

Many family transfers involve some element of gift. Frequently some of the farm property is given to the younger generation or is sold for less than the actual market value. It is important in the interests of good family relationships and for tax purposes as well that both father and son know what is being given and what is being paid for.

There are other good reasons to keep the transfer on a business like basis. Often the son's ownership share gradually increases as the father's decreases. Unless an up-to-date record is kept of the changing ownership, it is possible for difficulties to arise in the settlement of estates. A farm inventory book, kept up to date and signed by both father and son, is good evidence of ownership.

3. Allow the son to gain ownership as rapidly as is in keeping with the responsibility he carries and as rapidly as he can pay for it.

If the son is an equal partner in management and profit sharing, he should be working towards a one-half ownership of the land and buildings as well as of the stock and tools.

If the father has completely retired from the management of the business, the son should be working toward complete ownership.

In general, a gradual change of ownership over a period of years proves most satisfactory to all.

4. Plan to transfer ownership of stock and equipment before transfer of ownership of land and buildings.

In a transfer of ownership of stock and equipment before a transfer of ownership of land and buildings the father and son can own property together in a way that can be easily discontinued. Such an arrangement allows for a period of adjustment so that later if the son decides that he does not want to stay at home, the problem of a property settlement will be easy.

Often when father and son are definitely established in business, they discover a need for more land and a house for the son's family. This is a good time to provide the the son with real-estate ownership.

5. Provide at the beginning for the eventuality of the unexpected death of either father or son.

If the father dies suddenly, the son may be unable to buy out the other heirs without the aid of a plan made in advance.

Frequently it is not best to make a definite and final plan for the transfer of ownership to the son in the early years of a father-son partnership, but stop-gap measures can be used to protect the son should the father die unexpectedly. An effective way to do this is to have the father make a will which gives the son an option to buy the father's farm property. The option should specify how the price is to be set and how the payment is to be made.

Some provision should also be made for the father to buy the son's farm property should the son die unexpectedly. Otherwise, the father may be faced with continued operation with the son's widow.

6. Make the plan flexible.

It is important to provide for the possibility of a younger son getting into the business at a later date, and for the possibility of a son's departure from the business.

One should look ahead and anticipate changing family needs and conditions, but should also remember that it is impossible to foresee all possible changes in the family set-up.

7. Transfer as much of the farm property to the son before the parents' death as is in keeping with the financial security of the parents and the son's ability to pay for it.

A policy to transfer as much of the farm property to the son before the parents' death as is in keeping with financial security of the parents and the son's ability to pay is advantageous to both the older and the younger generation. It is to the son's advantage because it gives him a chance to pay for the farm while he is young and best able to do so. He knows early in life that he will have the farm, and how much it will cost him.

It is to the father's advantage because he may thus keep a son at home without whom he would be unable to continue farming. Thus the financial security of the parents is strengthened and they can see the farm remain in the family.

8. Give consideration to tax problems.

Cutting tax costs should not be the first consideration in transferring farm ownership. After a general plan of transfer has been adopted, however, various alternatives should be considered in view of the tax liabilities involved.

If the plan is to sell the farm to the son, an income-tax problem may be involved.

If the plan is to give the farm to the son during the father's lifetime, the problem of gift taxes arises.

If the plan is to will or otherwise leave the farm to the son, estate or inheritance taxes must be considered.

In general, careful advance planning is necessary to take advantage of the opportunity to minimize these various taxes.

9. Employ legal counsel to handle the legal problems involved.

Legal counsel is necessary at some point in every farm transfer arrangement. The members of the family must first decide what the objectives of the transfer are to be. A lawyer should then be consulted to assist in putting the plan into operation.

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